

FINAL PRESENTATION DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

INDEPENDENT REVIEW OF THE
PROPOSED BUDGET AND RATES FOR
FY2025 AND FY2026

February 27, 2024

AGENDA

Independent Review Objectives and Procedures

Recent Performance

Proposed Budget and Rates

Bill Impact and Affordability

Conclusions and Recommendations

- **Rate Sufficiency:** Ensure that water and sewer rates, the metering fee, the water system replacement fee, and the Clean Rivers Impervious Area Charge ("CRIAC") rates are sufficient to meet funding requirements for all current and long-term liabilities and debt obligations.
- **CSO Cost Assignment:** Understand and explain the logic and reasonableness of the assignment of costs to the CRIAC and to the wastewater volumetric rates.
- **Customer Impact:** Understand and explain the impacts on typical customers in each class as well as examples of customers that may be significantly impacted by the proposed changes in rates and charges.
- **Affordability:** Understand and explain the impacts of DC Water's affordability assistance programs on the bills of qualifying customers under the rate proposals for FY 2025 and FY 2026.
- **Policy Review:** Examine DC Water practices and policies relative to those of peer utilities in conducting the review. Ensure that the proposed rates that have been developed are consistent with the Board of Directors' rate-setting policies.
- **Rate Model Assumptions:** Review the assumptions in the DC Water rate model for the equitable allocation of costs and retail rates.
- **Water Is Life Amendment:** Review the proposed Water Is Life Amendment Act of 2024 and explain the impacts this proposed change would have on revenue and the ability of DC Water to meet the Financial Policies of the Board.
- **Presentation:** Present the results of this review to the Retail rates Committee and the Board of Directors and testify at the public hearing about the efficacy of the proposed rates.

Independence:

Independence is a key aspect of this Review.

- Arcadis has not assisted DC Water with the development of the current retail water and wastewater rates and charges, and customer assistance programs.
- The Review was approached with an independent perspective and Arcadis seeks to offer DC Water professional considerations to improve its rates and customer assistance programs.

Arcadis Expertise:

Arcadis is a leading utility consulting and engineering firm both in the United States and across the globe.

- Arcadis' Business Advisory unit includes our Financial Advisory Services team, which focuses on water, wastewater, and stormwater industry cost of service, rates and charges, and other financial and management issues faced by utilities such as DC Water.
- This independent review was conducted by industry leading professionals, Robert Ryall, Fernando Pasquel and Jeffrey Yeschick. Combined, these professionals have over 75 years of water, wastewater and stormwater utility experience. Industry leadership includes contributions to the American Water Works Association Manual of Practice M1; Principles of Water Rates, Fees and Charges and the Water Environment Federation's User-Fee-Funded Stormwater Programs.

1

Review Recent Financial Performance

2

Review FY2025 & FY2026 budgets versus historic actual results

3

Review Rate Setting and Rate Setting Practices

4

Comparison of Rates and Affordability

5

Conduct interviews with DC Water representatives

6

Prepare a report and presentation summarizing the work performed

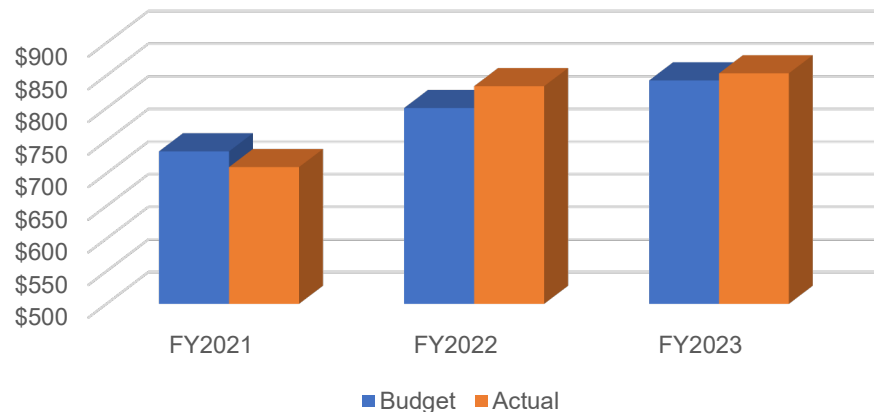
Recent Financial Performance



Revenue

- From FY2021 to FY2023, operating revenues increased from \$710 million to \$853 million.
- Lower cash receipts in FY2021 are mainly due to a decline in consumption due to the COVID-19 pandemic.
- FY2022 revenue increased 17.5% YoY compared to a 7.8% increase in rates, mainly due to an increase in consumption following the pandemic.
- FY2023 revenue increased 2.4% YoY compared to a 9.5% increase in rates with a decrease in Residential and Federal consumption.

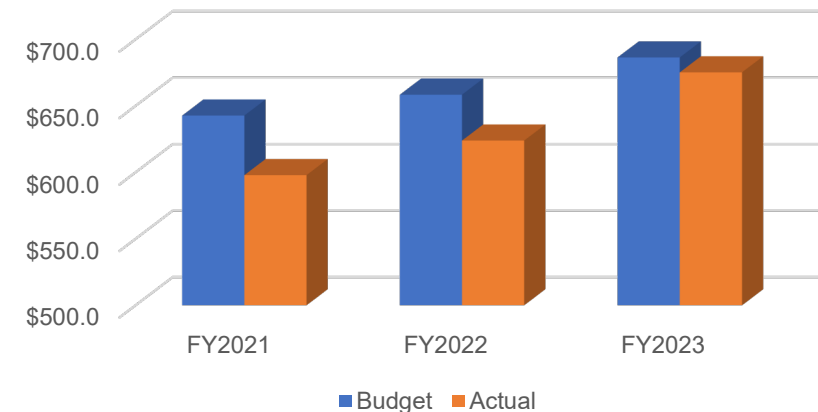
Budget vs. Actual Revenue Receipts (\$ millions)



Expenditures

- From FY2021 through FY2023, expenditures increased from \$598 million to \$675 million.
- Expenditures were less than the budgeted amounts each year.
- The variance in actual versus budgeted expenditures in FY2021 and FY2022 were related to the COVID-19 pandemic.
- Debt service payments were lower than budgeted due to refinancing and lower interest rates on existing debt.

Budget vs. Actual Expenditures (\$ millions)

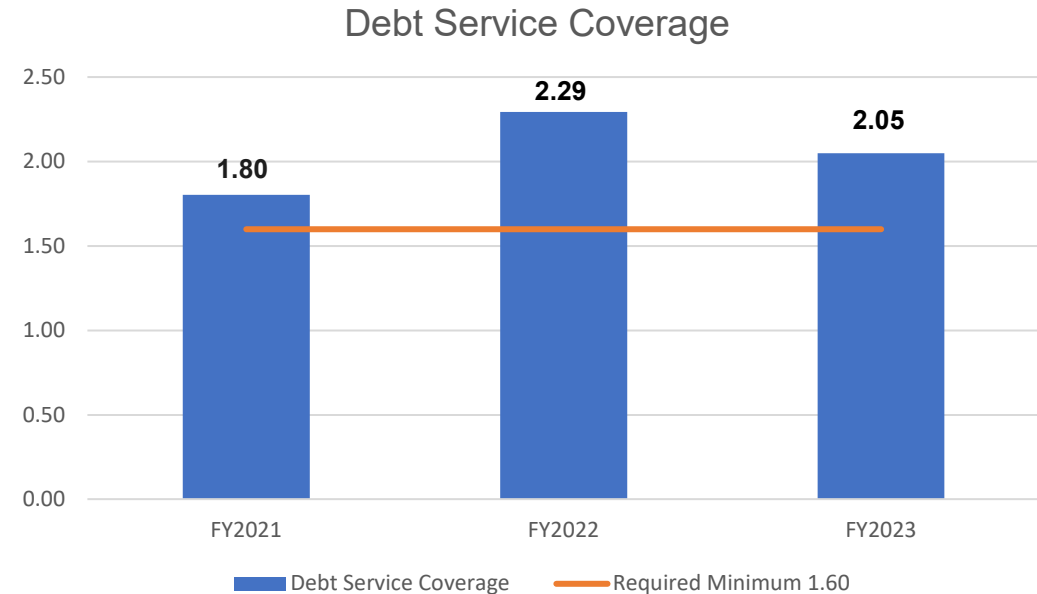
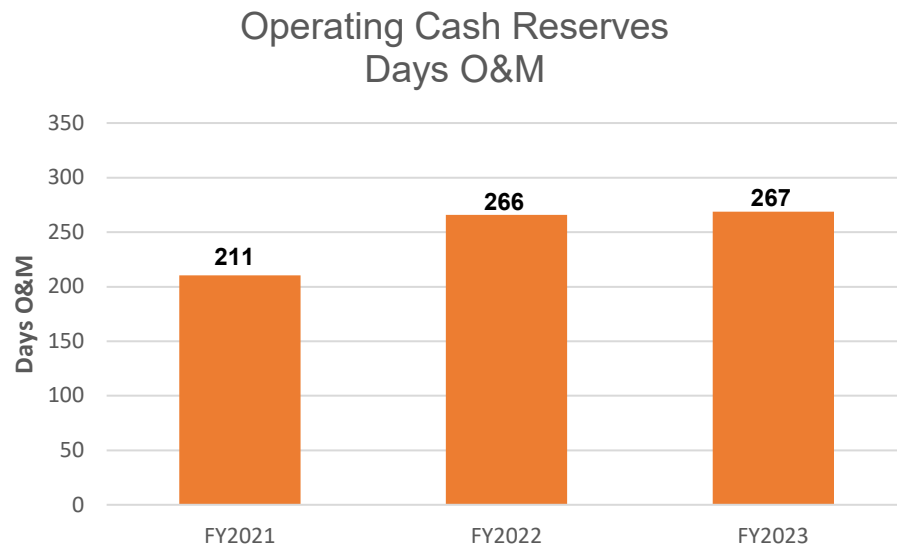


Consumption levels, and associated revenue, have improved since declining during the COVID-19 pandemic. Annual revenues exceeded expenditures each year, FY2021-FY2023.

Recent Financial Performance: Metrics



- On October 7, 2021, (beginning of FY2022), Resolution 21-84 established a target minimum cash balance of 250 days O&M expenses and minimum target debt service coverage of 160%.
- On October 5, 2023, (beginning of FY2024), Resolution 23-58 set a goal to achieve a cash balance of 350 days O&M expenses by 2032.



- Operating cash reserves increased from \$196.3 million to \$287.7 million from FY2021 to FY2023, or the equivalent of 211 days to 267 days of O&M.
- DC Water maintained a debt service coverage greater than the required minimum of 160% for each year FY2021 through FY2023.

DC Water continues to be recognized by its peers and has received numerous awards for performance and innovation.

- The Government Finance Officers Association (GFOA) offers three awards for budget presentation and financial publications. DC Water's Budget has won two of these awards and been recognized every year for the last 22 years. This year for the first time, DC Water's Popular Financial Report was recognized, winning all three awards. This unique recognition is regarded as the "Triple Crown". So, for the first time, **DC Water is a Triple Crown Winner**.
- In May 2022, the Authority was awarded the **prestigious Smart Water Project of the Year**, at the Global Water Awards. This award recognizes of the impact of the new Event Management System which utilizes system data to pinpoint problems, generate alerts and to facilitate improved coordination with the District and their first responders.
- The Institute of Supply Management awarded DC Water the **Trailblazer Award for the second consecutive year** in 2023 in recognition of DC Water's initiatives that have optimized processes and set benchmarks within supply chain management.



- Blue Plains Advanced Wastewater Treatment Plant was recipient of the **2021 Peak Performance Award after ten consecutive years of full compliance with its NPDES permit**. The Peak Performance Awards recognizes National Association of Clean Water Agencies (NACWA) member agency facilities for excellence in permit compliance.
- Awarded **Gold Level, Excellence in Management**, by the NACWA in 2022. This program honors member agencies that are implementing management practices that address the range of challenges identified in the Ten Attributes of Effectively Managed Water Sector Utilities.



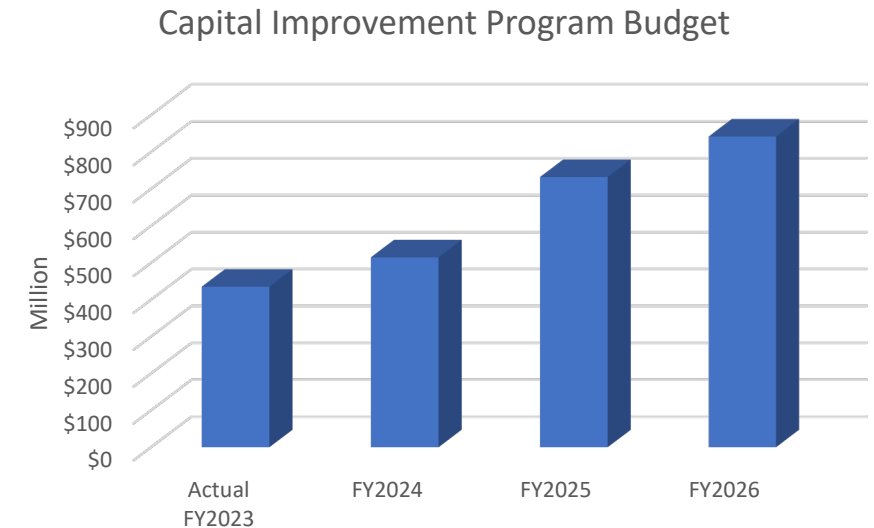
This industry recognition is evidence of the high level of performance DC Water delivers and provides assurance to ratepayers and stakeholders that their resources are being spent wisely and they are receiving maximum value.

- Proven financial policies and strong financial performance leads to higher bond ratings which results in lower interest rates and borrowing costs.
- A strong credit rating reduces the cost of debt which minimizes the financial burden of the utility and benefits ratepayers through lower rate increase requirements.
- Current Bond Ratings
 - Fitch: AA+
 - Moody's: Aa1
 - Standard & Poor's: AAA
- Strong bond ratings provided DC Water opportunity to refinance debt at lower interest rates in FY2021 and FY2022.
- DC Water's strong financial performance has allowed the Authority to secure \$156 million in federal low interest loans for 20 projects under the Water Infrastructure Finance and Innovation Act (WIFIA) program.

DC Water has established and maintains financial metrics and goals which support the strong credit ratings and allow for securing future debt at competitive interest rates. Approximately \$3.3 billion is planned to be borrowed to fund the capital program over the next 10 years.

Increased Investment in the Capital Improvement Program

- The CIP expense budget is projected to nearly double by FY2026, increasing to \$841.8 million in FY2026 from \$435.1 million in FY2023.
- Debt service payments are projected to increase from \$225.9 million in FY2023 to \$277.0 million in FY2026.
- The cash financed CIP budget is projected to increase from \$35.7 million in FY2023 to \$71.9 million in FY2026.
- The proposed ten-year total CIP budget is \$7.7 billion which includes a \$792 million increase over the Board approved CIP.

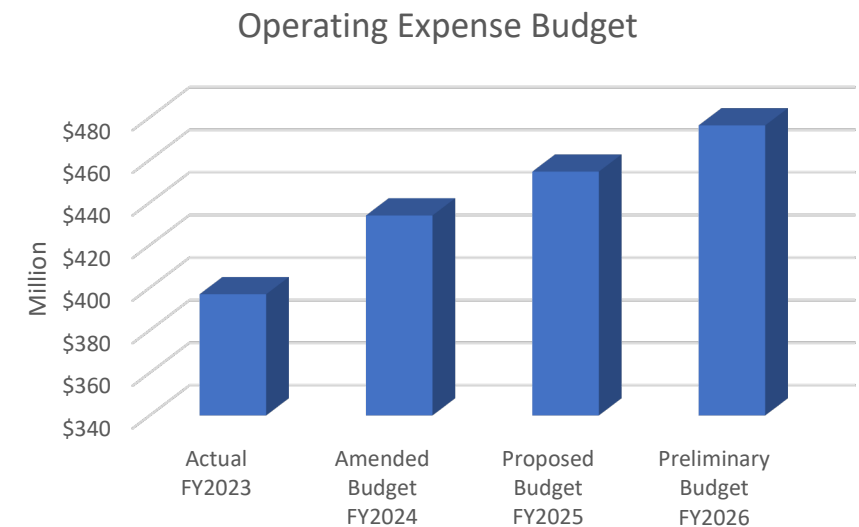


Source: FY 2025 10-Year CIP

The need to repair and replace aging infrastructure is a significant issue for water and sewer providers. The cost of addressing aging infrastructure needs is placing significant pressure on rates throughout the industry.

Operating Expenses are Projected to Increase

- The operating expense budget is projected to increase to \$476.2 million in FY2026. This represents a 19.98% increase compared to the FY2023 actual operating expenditure.
- Personnel Services account for approximately 46% of the total O&M budget. Personnel Services is budgeted to increase 4.0% each year in FY2025 and FY2026.
- The authorized headcount for FY2025 is 1,325 FTE. A budgeted job vacancy rate of 7% is assumed for FY2025. The current vacancy rate, as of November 2023, is 13%, with a total of 1,143 positions filled.



DC Water is budgeting operating expense increase consistent with inflationary indices. Personnel Services represent the largest portion of the operating budget.

Why are Rate Increases Necessary (Continued)

Operating Expenses (Continued)

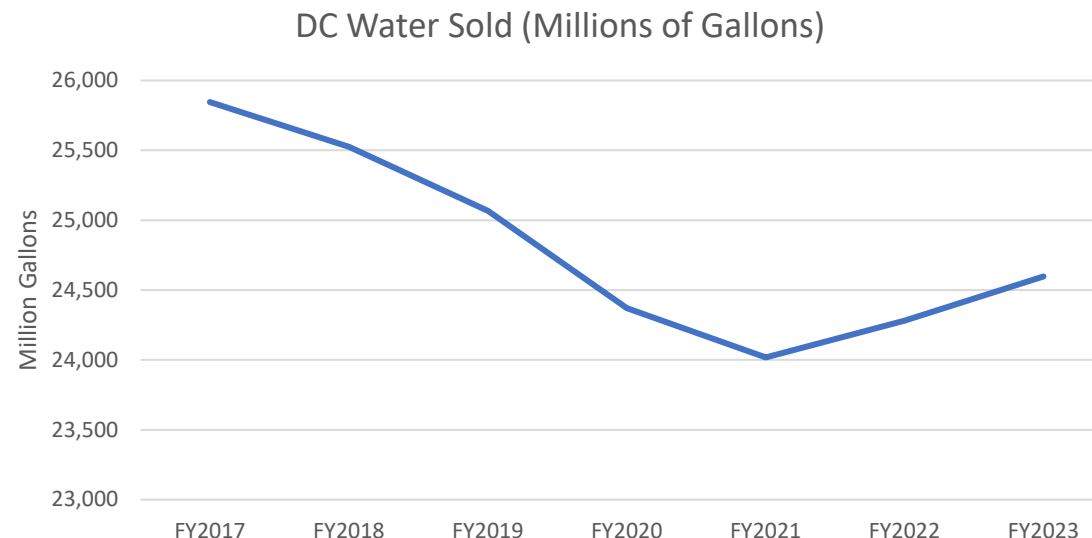
- DC Water utilizes Contractual Services to avoid staffing fluctuation when completing major initiatives. Contractual Services are budgeted to increase by 9.9% in FY2025 and 3.6% in FY2026.
- The FY2025 and FY2026 Chemicals and Supplies budget includes increases of \$1.0 million and \$5.1 million, respectively, for critical parts and supplies for maintenance of equipment and facilities.
- Budgeted Water Purchases are projected to increase 2.9% and 7.1% in FY2025 and FY2026, respectively. This expense includes drinking water purchases from the Washington Aqueduct and funds for DC Water's share of the McMillan Sewer backwash.

Line No:	Operating Expenditures (\$ Millions)	Actual FY2023	Amended Budget FY2024	Proposed Budget FY2025	Preliminary Budget FY2026	FY2025 YoY Change	FY2026 YoY Change
1	Regular Pay	\$132.7	\$147.2	\$154.1	\$160.3	4.7%	4.0%
2	Benefits	\$40.8	\$45.9	\$46.4	\$48.3	1.2%	4.0%
3	Overtime	\$9.8	\$8.5	\$9.1	\$9.5	7.0%	4.0%
4	Total Personnel Services	\$183.3	\$201.6	\$209.6	\$218.0	4.0%	4.0%
5	Chemicals and Supplies	\$53.1	\$54.6	\$55.6	\$60.7	1.9%	9.2%
6	Utilities	\$37.4	\$39.2	\$40.3	\$41.8	2.8%	3.6%
7	Contractual Services	\$88.3	\$93.1	\$102.3	\$106.0	9.9%	3.6%
8	Water Purchases	\$33.6	\$44.0	\$45.3	\$48.6	2.9%	7.1%
9	Small Equipment	\$1.2	\$1.4	\$1.4	\$1.3	-5.1%	-6.6%
10	Total Non-Personnel Services	\$213.6	\$232.3	\$244.9	\$258.2	5.4%	5.5%
11	Total O&M	\$396.9	\$433.9	\$454.5	\$476.2	4.7%	4.8%

Inflationary increases in items such as chemicals, energy, materials, and labor, have resulted in increased utility operating costs.

Declining Water Use

- The cost of service analysis shows approximately 76.5% of revenue is generated from volumetric sales.
- Prior to the COVID-19 pandemic, from FY2017 through FY2019, water sold decreased by an average of 1.5% annually.
- The water demand increased with recovery from the pandemic, but the overall trend between FY2017 and FY2023 shows a decline in water sales. The average annual decrease in water sold from FY2017 through FY2023 is 0.8%.
- DC Water has projected that water consumption will continue to decline at 1.0% annually in FY2025 and FY2026.



Why Invest in Capital Improvements

The capital budget is projected to increase to \$732.1 million and \$841.8 million in FY2025 and FY2026, respectively.

The proposed 10-year CIP budget is \$7.7 billion and will fund the following infrastructure:

- Fully funds the Clean Rivers Program including completion of the Potomac River tunnel to meet the consent decree requirement by 2030
- Allocates funding for the Lead-Free DC program
- Funds more than 150 miles of small diameter water main replacement
- Invests \$3.5 billion in the aging water and sewer system infrastructure. The current age of water and sewer piping systems average over 80 and 86 years, respectively, approaching end of service life.
- Directs \$1.3 billion for major rehabilitation and upgrades at Blue Plains Advanced Wastewater Treatment facility

Line No:	Category	Actual FY2023	FY2024	FY2025	FY2026
1	Non Process Facilities	\$10.3	\$13.1	\$19.9	\$25.2
2	Wastewater Treatment	\$50.4	\$65.2	\$103.3	\$133.5
3	Combined Sewer Overflow	\$93.8	\$123.8	\$213.4	\$231.3
4	Stormwater	\$3.5	\$7.3	\$13.6	\$8.0
5	Sanitary Sewer	\$57.7	\$80.6	\$92.2	\$123.9
6	Water	\$118.4	\$158.7	\$222.5	\$252.4
7	Additional Capital Projects	\$101.2	\$66.1	\$67.2	\$67.6
8	Total Capital Budget	\$435.1	\$514.7	\$732.1	\$841.8
9	YoY Change		\$79.6	\$217.4	\$109.7
10	YoY Percent Change		18.3%	42.2%	15.0%

- Allocates \$357.5 million for DC Water's share of the Aqueduct's infrastructure program
- Provides \$347.4 million for the purchase/replacement of vehicles, heavy-duty equipment, mechanical equipment, operational facilities, meters, office renovations, and IT projects

Proposed Change in Rates for FY2025 & FY2026



The table below presents the proposed rate changes for FY2025 and FY2026. Majority of the proposed increases are related to the recovery of water costs.

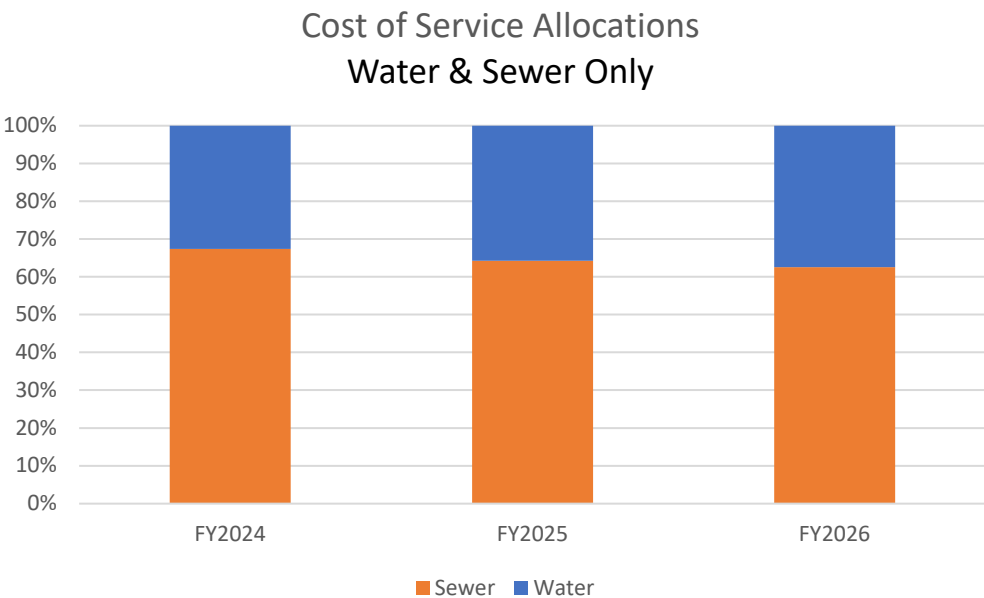
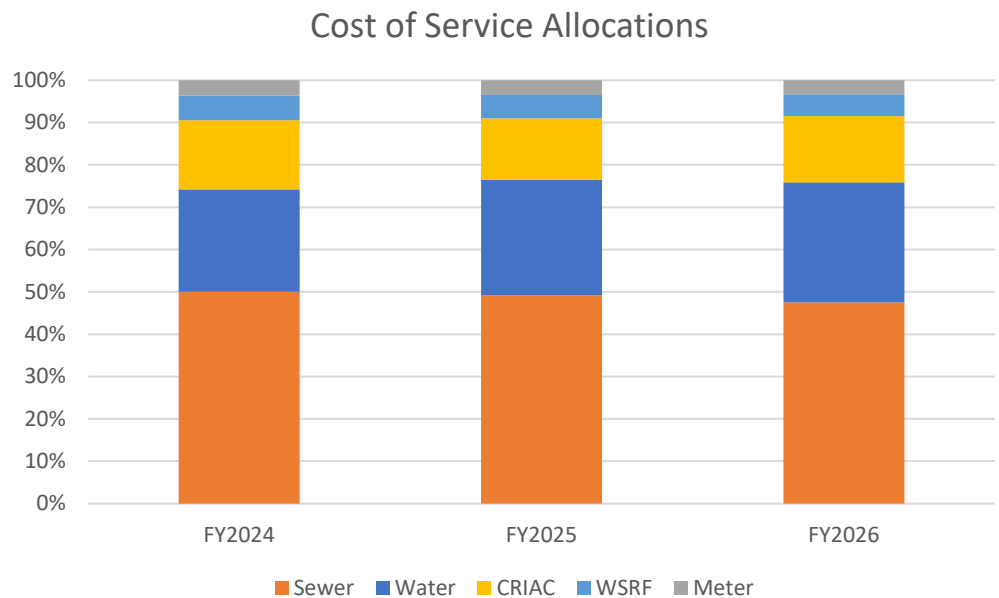
- Overall system proposed revenue increases for FY2025 and FY2026 are 8.0% and 6.0%, respectively.
- Cost recovery primarily impacts water rates mostly due to costs associated with Source of Supply & Treatment and Distribution.
- No adjustments in monthly metering charges and system replacement fees are proposed.
- DC Water bills and collects the PILOT Fee, Right of Way Fee, and Stormwater Fee on behalf of the District of Columbia.

Rates	Units	Current	Proposed	Proposed	Incr. /(Decr.) FY2025		Incr. /(Decr.) FY2026	
		FY2024	FY2025	FY2026	\$	%	\$	%
DC Water Retail Rates								
Water								
Residential – Lifeline (0- 4 Ccf)	Ccf	\$4.38	\$5.21	\$5.78	\$0.83	18.9%	\$0.57	10.9%
Residential – (> 4 Ccf)	Ccf	\$5.70	\$6.81	\$7.60	\$1.11	19.5%	\$0.79	11.6%
Multi-family	Ccf	\$5.00	\$5.82	\$6.47	\$0.82	16.4%	\$0.65	11.2%
Non-Residential	Ccf	\$5.89	\$7.03	\$7.84	\$1.14	19.4%	\$0.81	11.5%
Sewer	Ccf	\$11.70	\$12.07	\$12.52	\$0.37	3.2%	\$0.45	3.7%
Clean Rivers IAC	ERU	\$21.86	\$21.23	\$24.23	\$-0.63	-2.9%	\$3.00	14.1%
Customer Metering Fee	5/8"	\$7.75	\$7.75	\$7.75	\$0.00	0.0%	\$0.00	0.0%
Water System Replacement Fee	5/8"	\$6.30	\$6.30	\$6.30	\$0.00	0.0%	\$0.00	0.0%
District of Columbia Rates								
PILOT Fee	Ccf	\$0.61	\$0.61	\$0.62	\$0.00	0.0%	\$0.01	1.6%
Right of Way Fee	Ccf	\$0.19	\$0.19	\$0.20	\$0.00	0.0%	\$0.01	5.3%
Stormwater Fee	ERU	\$2.67	\$2.67	\$2.67	\$0.00	0.0%	\$0.00	0.0%

Rate Structure & Cost Allocation Review



- The proposed rates, presented on the preceding slide, are developed based on a bi-annual Cost of Service (COS) analysis.
- The figures below provide the allocated proportion of revenue requirements allocated to each Rate Component as well as the cost of service allocated to each service type, water and sewer.



DC Water’s proposed FY2025 and FY2026 rates have been reasonably developed, based on industry cost of service principles, and reflect the budgeted revenue requirements of the system. In addition, the rates adhere to Board policies and are comparable to the rates of other utilities.

Proposed FY2025 & FY2026 Rates: Bill Impacts



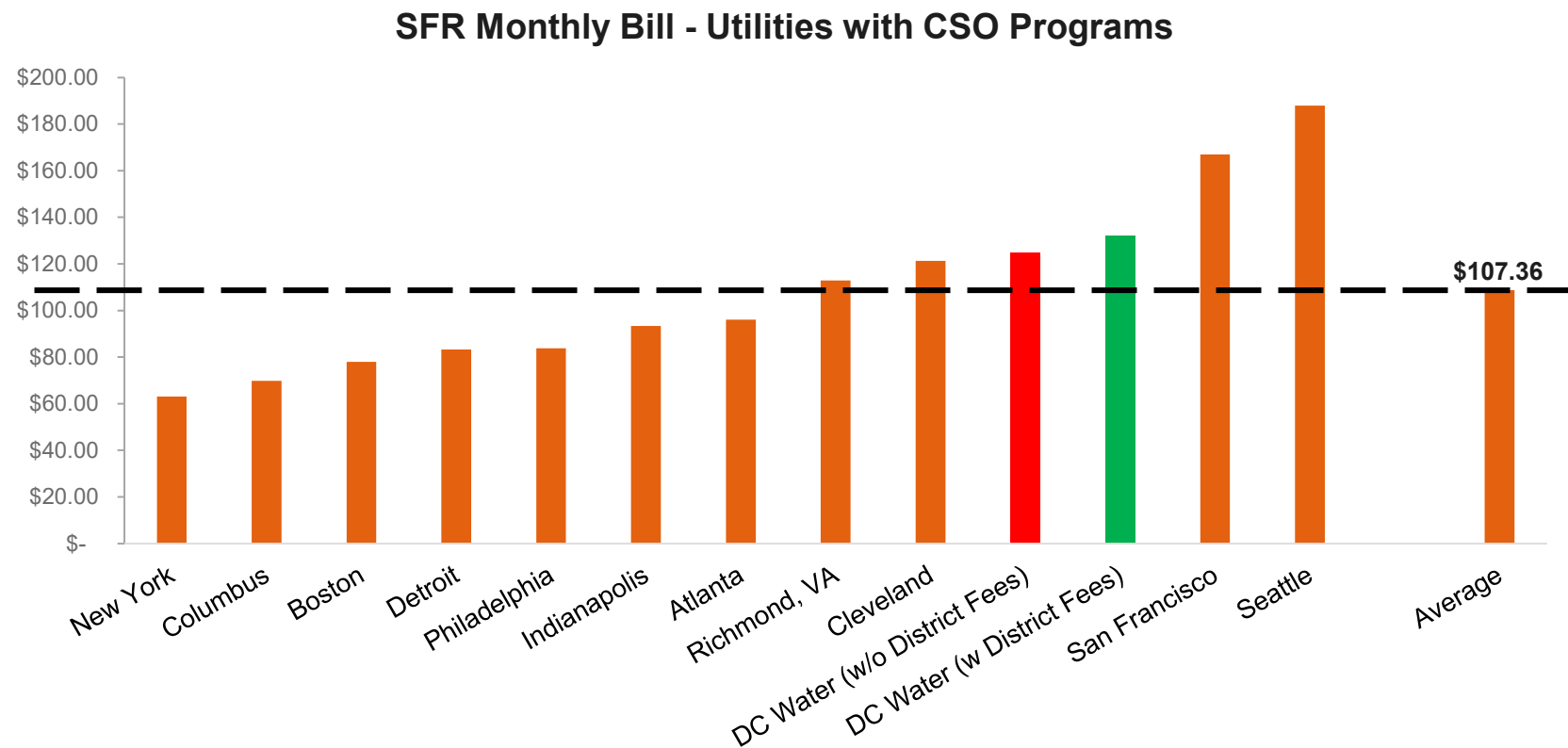
	Avg SFR	Avg SFR in CAP	High Volume SFR	Ave Multi-Family	Avg Commercial	High Volume Commercial	Sample Cemetery	Sample Non-profit-low usage	Sample Non-profit -high usage
Monthly Bill - 2024 Rates (\$)	\$131.95	\$41.73	\$330.83	\$1,779.33	\$6,531.12	\$73,082.96	\$2,923.89	\$1,686.42	\$18,778.24
Monthly Bill - 2025 Rates (\$)	\$138.22	\$43.68	\$350.65	\$1,880.88	\$6,560.58	\$77,877.15	\$2,858.47	\$1,660.23	\$19,911.36
Monthly Bill - 2026 Rates (\$)	\$147.16	\$46.21	\$374.67	\$2,001.00	\$7,252.08	\$83,274.13	\$3,209.79	\$1,847.25	\$21,326.37
%Change 2024-2025	4.8%	4.7%	6.0%	5.7%	0.5%	6.6%	-2.2%	-1.6%	6.0%
%Change 2025-2026	6.5%	5.8%	6.9%	6.4%	10.5%	6.9%	12.3%	11.3%	7.1%
Assumptions:									
Consumptions (ccf/month)	5.42	5.42	15	88.95	98.20	3,332.33	4.7	7.36	804.07
Meter Size	5/8"	5/8"	5/8"	1.5"	2"	8 x 2"	5/8"	2"	4"
ERU	1	1	2	6.83	188.6	377.2	115.1	59.2	128.6

- Typical single-family customers will experience increases of 4.8% and 6.5% in 2025 and 2026, respectively, or about \$6 to \$9 per month in each year.
- CAP customers will experience slightly smaller bill percentage increases of 4.7% and 5.8% in 2025 and 2026, respectively, or about \$2 to \$2.50 per month.

Comparison of Charges



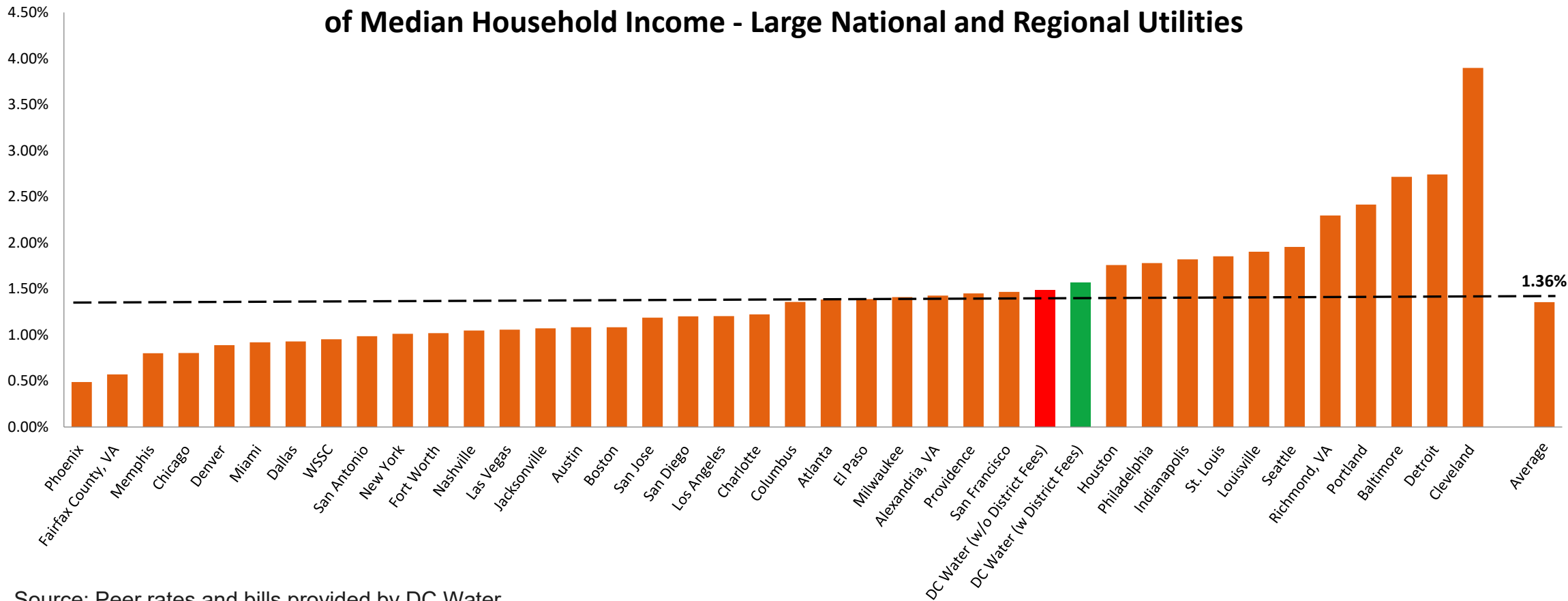
- Charts reflect rates and fees in place as of November 1, 2023.
- Assumes average residential consumption of 5.42 Ccf, or 4,054 gallons per month.



Source: Peer utility rates and bills provided by DC Water

DC Water charges are comparable to the average of the utilities surveyed that have combined sewers and CSO control programs.

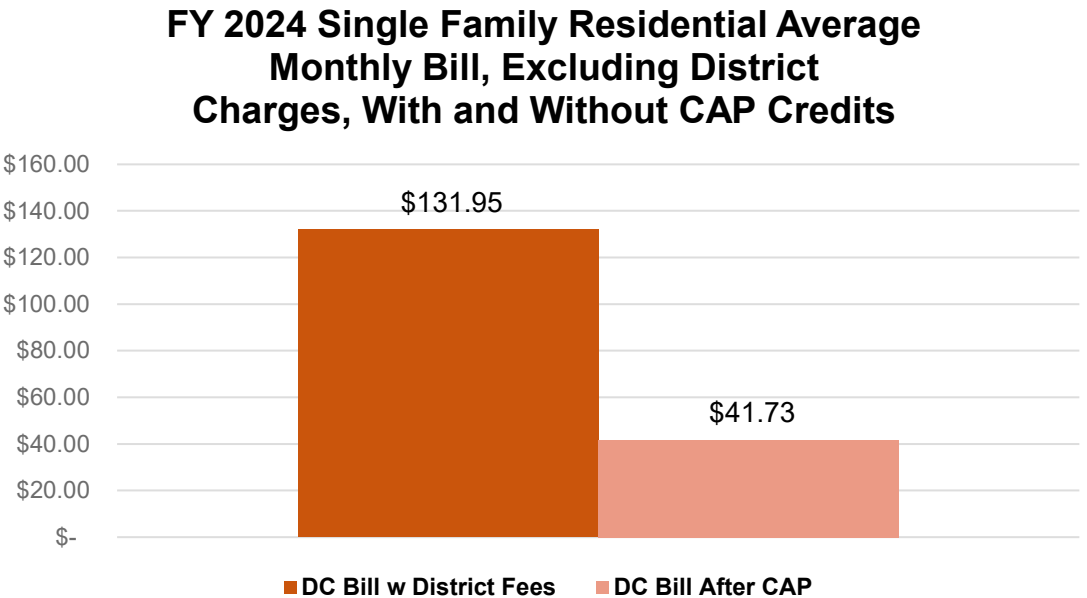
Single Family Residential (SFR) Monthly Bill as %
of Median Household Income - Large National and Regional Utilities



Source: Peer rates and bills provided by DC Water

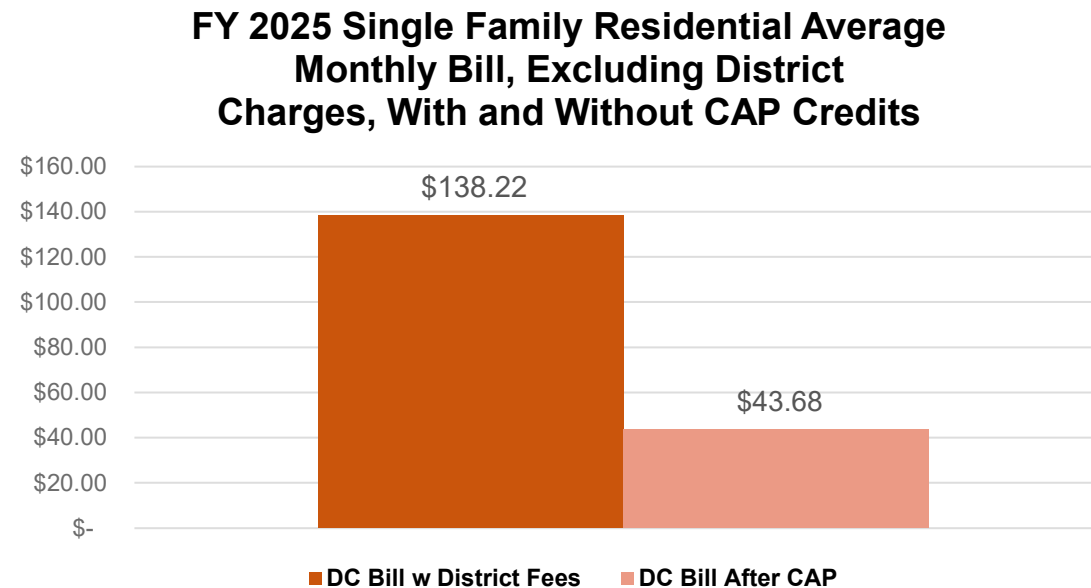
DC Water’s water, sewer, stormwater charges (without District fees) as a % of median household income are *reasonable* at 1.48% and are competitive with industry peer utilities.

After Customer Assistance Program (CAP) credits, a family of four at the 2023 Federal Poverty income level, using an average residential consumption of 5.42 Ccf, or 4,054 gallons, per month spends 1.67% of income on DC Water bills, excluding District Charges, with FY2024 rates.



DC Water’s CAP programs provide a significant reduction in participating customer bills.

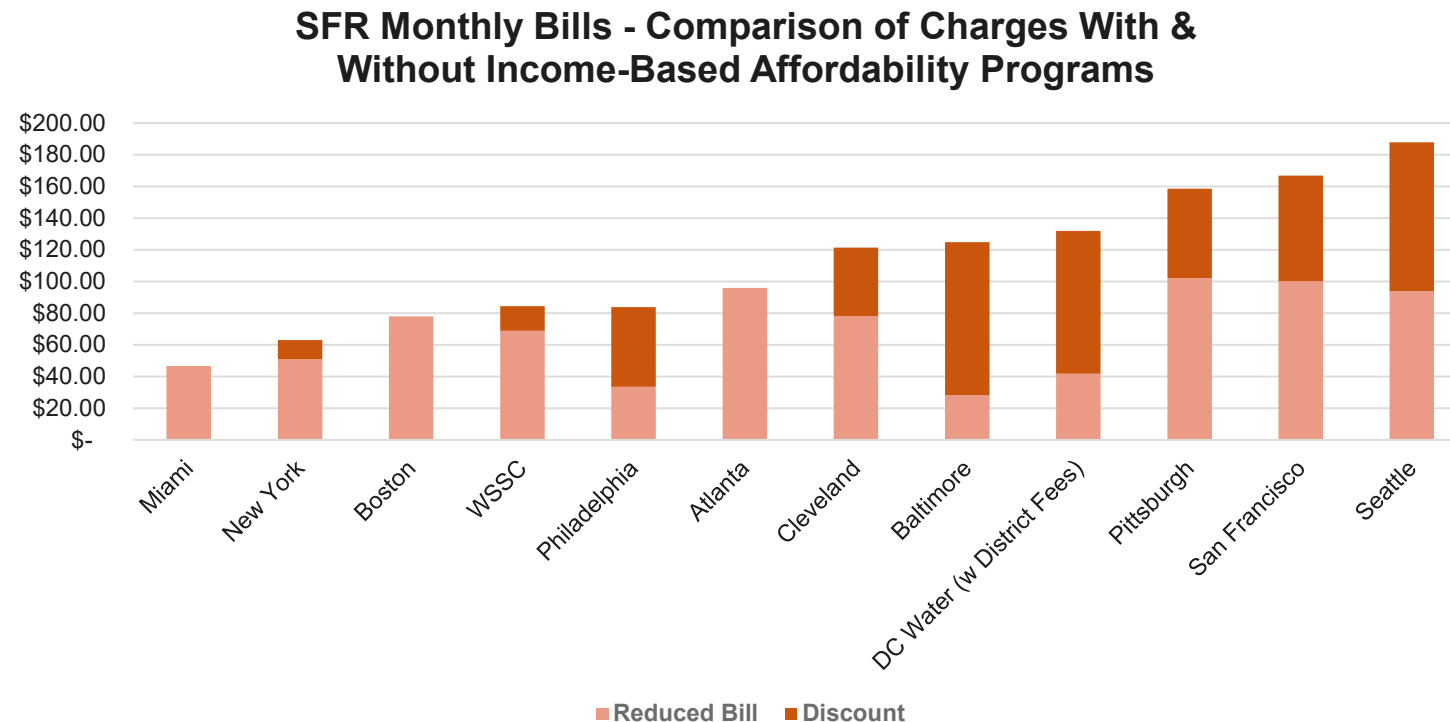
After Customer Assistance Program (CAP) credits, a family of four at the 2023 Federal Poverty income level, using an average residential consumption of 5.42 Ccf, or 4,054 gallons, per month spends 1.75% of income on DC Water bills, excluding District Charges, with the proposed FY2025 rates.



DC Water's CAP programs provide a significant reduction in participating customer bills.

Affordability of User Charges (Continued)

- DC Water CAP programs provide a monthly bill reduction of \$90.20 or 68% to participating customers.
- Support from CAP programs result in participating customer bills, which as a proportion of income, are similar to a single-family resident at median household income (1.67% and 1.48%)



The customer assistance programs offered by DC Water are robust compared to other utilities and provide the highest bill reduction among the peer utilities systems in the benchmarking survey.

Affordability of User Charges (Continued)

Program	Description	Eligibility
Customer Assistance Program (Monthly Discounts for Residential Customers)	Eligible households receive discounts on water and sewer services and/or discounts on some fees. (CAP 1, CAP 2, CAP 3) -Discounts range from \$196 to \$1,080 annually.	CAP 1: Residents with household income of 60% of AMI (Area Median Income) CAP 2: 80% AMI CAP3: 100% AMI
CAP+ *	All CAP benefits plus two (2) CCF of water and sewer credit. This is an additional credit of approximately \$39.00 per month per eligible customer.	20% AMI and approved by DOEE
Leak Assessment *	DC Water will offer resources that will provide private side leak assessment to help customers identify the source of leaks and associated high usage.	CAP, CAP 2, and CAP+ customers that have received consecutive usage notifications indicating that there may be a leak on the property.
Residential Assistance Program (Emergency Residential Relief)	Up to \$2,000 to help income-eligible customers eliminate their past due balance.	Income eligible customers verified by DOEE.
CRIAC Relief for Nonprofit Organizations	Credits of up to 90% of the CRIAC portion of a nonprofit's water bill.	Income eligible non-profit organizations, verified by DOEE.
Extended Payment Plans	Repay past due balances over time. More flexible options now available. No late fees accrue while meeting payment plan obligations.	Customers with a balance may be eligible.
SPLASH (One-time Emergency Assistance)	Up to \$350. DC Water employees, customers and others donate to this one-time assistance fund for those facing disconnection.	Income eligible customers, verified by Greater Washington Urban League.
Payment Plan Incentive Program*	DC Water will adjust 40% of the outstanding balance when an eligible customer maintains their payment plan. DC Water will post after three (3) months of on-time payments if current charges and payment terms are maintained.	Residential customers with an outstanding balance aged 60 days or greater and totals \$500 or more.

* Upcoming programs in FY2024/ FY2025

The customer assistance programs offered by DC Water are robust compared to other utilities and DC Water continues to advance customer assistance, adding four new programs in FY2024 and FY2025.

Arcadis was provided a February 1, 2024, letter and enclosed copy of proposed legislative changes from the Council of the District of Columbia summarizing proposed changes to the Code of the District of Columbia, referred to as the Water Is Life Amendment Act of 2024. From review of this letter and legislative changes, the Water Is Life Amendment Act of 2024 introduces the following impacts:

- Prohibits water service disconnections for nonpayment at Residential Property
- Expands the current Code definition of Residential Property to include properties that contain ambulatory care, group home, sleeping unit, dwelling unit, housing unit, custodial care facility, or foster care facility
- Introduces the term Nonresidential Building which means a building that does not contain ambulatory care facility, group home, sleeping unit, dwelling unit, housing unit, custodial care facility, or foster care facility

DC Water provided delinquency data resulting from the service disconnect moratorium put in place during the COVID-19 pandemic:

- Delinquent payments increased from approximately \$10.6 million (1.53% of total revenue) in FY2019, prior to the COVID-19 pandemic, to approximately \$26.3 million (3.71% of total revenue) in FY2021, during the COVID-19 pandemic, an increase of 2.18%. During this time DC Water provided nearly \$15 million in new customer assistance programs, likely lessening the increase in delinquencies.
- From Arcadis' work in the industry, other water and sewer utilities experienced even higher delinquencies resulting from disconnect moratoriums, increases in delinquencies as high as 10%.

Proposed Water Is Life Amendment Act of 2024 (Continued)

- Revenue from the proposed FY2025 and FY2026 rates, adjusted for an increase in delinquencies to pandemic moratorium levels experienced by DC Water, are estimated to decrease by approximately \$9.4 million and \$10.0 million, respectively.
- The adjusted forecasted results show revenues that would not meet all Financial Policies of the Board and would reduce available PAYGO funding, which in turn, would increase future borrowing requirements.
- Additional borrowing could negatively impact the Authority's credit, resulting in a possible bond rating downgrade which would result in higher costs of borrowing.
- The authority and ability to enforce collections through service disconnect is a critical element of maintaining stable revenue streams.
- Impacts from the proposed Water is Life Amendment would result in deviations from cost of service based rates as higher rate increases would apply to paying customers to subsidize delinquencies.

Line No:	Financial Plan (Millions) ¹	FY2025	FY2026
1	Beginning Operating Cash Balance	\$296.6	\$304.3
2	Proposed Revenue	\$926.3	\$977.5
3	Revenue Reduction	(\$9.4)	(\$10.0)
4	Operating Expenses	(\$444.2)	(\$464.9)
5	Debt Service	(\$249.5)	(\$277.0)
6	Cash Financed CIP	(\$60.4)	(\$71.9)
7	Wholesale/Federal True-Up	(\$21.5)	(\$15.1)
8	Projected Billing Refunds	(\$2.0)	\$0.0
9	PAYGO	(\$135.6)	(\$133.5)
10	Operating Cash Balance	\$300.2	\$309.3
11	Operating Cash Balance (Days of O&M)	247	243
12	Required Cash Balance to Meet 250 days of O&M Minimum	\$304.3	\$318.5
13	Reduction in PAYGO to Meet 250 days of O&M Minimum	\$4.0	\$9.2

1 Source: DC Water Ten-Year Financial Plan

Impacts of the Water is Life Amendment are expected to result in increased delinquencies, reduce revenue, impact DC Water's ability to meet the Financial Policies of the Board, could result in credit downgrades, and would diminish cost of service justification for rates.

- DC Water's proposed FY2025 and FY2026 rates have been reasonably developed, based on industry cost of service principles, and reflect the budgeted revenue requirements of the system. In addition, the rates adhere to Board policies and are comparable to the rates of other utilities.
- The allocation of CRIAC and wastewater costs is based on functional allocations of revenue requirements to operating elements of the system; Water, Meter Charge, Wastewater, and Combined Sewer Overflow (CSO). CSO revenue requirements are further allocated to CRIAC for stormwater (63%) and wastewater (37%) based on engineering studies evaluating stormwater and wastewater contributions. This approach is reasonable and based on sound principles.
- The proposed FY2025 and FY2026 rates result in consistent bill impacts at similar levels for typical water users within in each customer class. Given proposed increases in water volumetric rates, high volume use customers, regardless of customer class, will experience a greater impact in their bills.
- Affordability is a current and long-term challenge for the water and wastewater industry as the cost of providing these services continues to increase. DC Water has established innovative and industry leading Customer Assistance Programs (CAP) in order to address affordability for its customers. Typical residential bills calculated using the proposed FY2025 and FY2026 rates, excluding adjustments from CAP programs, result in water and sewer bills of 1.48% of median household income. General industry guidelines indicate water and sewer bills less than 4.50% of median household income are considered affordable. A customer with income at the 2023 Federal Poverty level, with typical usage and participating in DC Water's CAP programs, will receive a bill reduction of approximately 66%. This will result in a bill of 1.67% of the participating CAP customers income.

- DC Water has established practices and policies to ensure that the revenue from the rates cover current costs and meet or exceed all bond and other financial requirements of the system. This includes meeting metrics for debt service coverage, cash reserves, and capital funded by pay-go. Establishment of these policies will ensure the financial health of the systems, allowing for continued needed investment in infrastructure and ensuring proper levels of service are maintained for customers. The practices and policies are consistent with industry best practices and peer utilities.
- DC Water provided delinquency data for 2019 through 2023 which represents pre and post COVID-19 pandemic. During the pandemic, a service disconnect moratorium was in place and an increase in delinquency was observed. Applying delinquency rates observed during the pandemic disconnect moratorium, which would reasonably be expected as a result of the proposed Water Is Life Amendment Act of 2024, would result in FY2025 and FY2026 revenue below forecasted levels and would impact DC Water's ability to meet all of the Financial Policies of the Board. Estimates show the decrease in revenue would reduce PAYGO funding, increasing borrowing, potentially impact credit ratings, and place greater pressure on future rates adjustments.
- The Board of Directors has established through Resolution, a series of rate setting policies. The proposed FY2025 and FY2026 rates are developed to cover current costs and meet or exceed all bond and other financial requirements, yield a reliable and predictable stream of revenues, based on annually updated forecasts of operating and capital budgets, developed based on legally defensible principles, understandable and reasonably implemented, and as such are consistent with Board rate-setting policies.

- The proposed FY2025 and FY2026 rates are developed using a cost of service analysis prepared based on industry guidelines as established in the AWWA Manual M1; Principles of Water Rates, Fees, and Charges. The proposed rates are developed in a manner yielding equitable allocation of costs and resulting in equitable retail rates.

- The District has experienced significant redevelopment in recent years. During its next parcel analysis, DC Water should consider conducting a review to validate the current ERU basis. DC Water should continue to conduct parcel analysis on a regular basis to maintain an up to date and accurate ERU for the CRIAC.
- The Water System Replacement Fee (WSRF) was implemented in 2016 and approved at its current level for a 10-year period. The WSRF is a fixed charge, graduated by meter size based on meter size capacities. As the current WSRF is set at the same level for a 10-year period, Arcadis recommends a cost-of-service update be performed to update the WSRF to ensure appropriate cost recovery between fees.
- Since a decline in water sold during the COVID-19 pandemic, DC Water has experienced an increase in water demand and associated revenue. However, data shows water sold is declining at an average annual rate of 1.3% between FY2017 and FY2023. The FY2025 and FY2026 forecasts incorporate a 1.0% annual decline in water sold. DC Water should continue monitoring declining water sales and incorporate any necessary adjustments into future forecasts.

Questions and Discussion

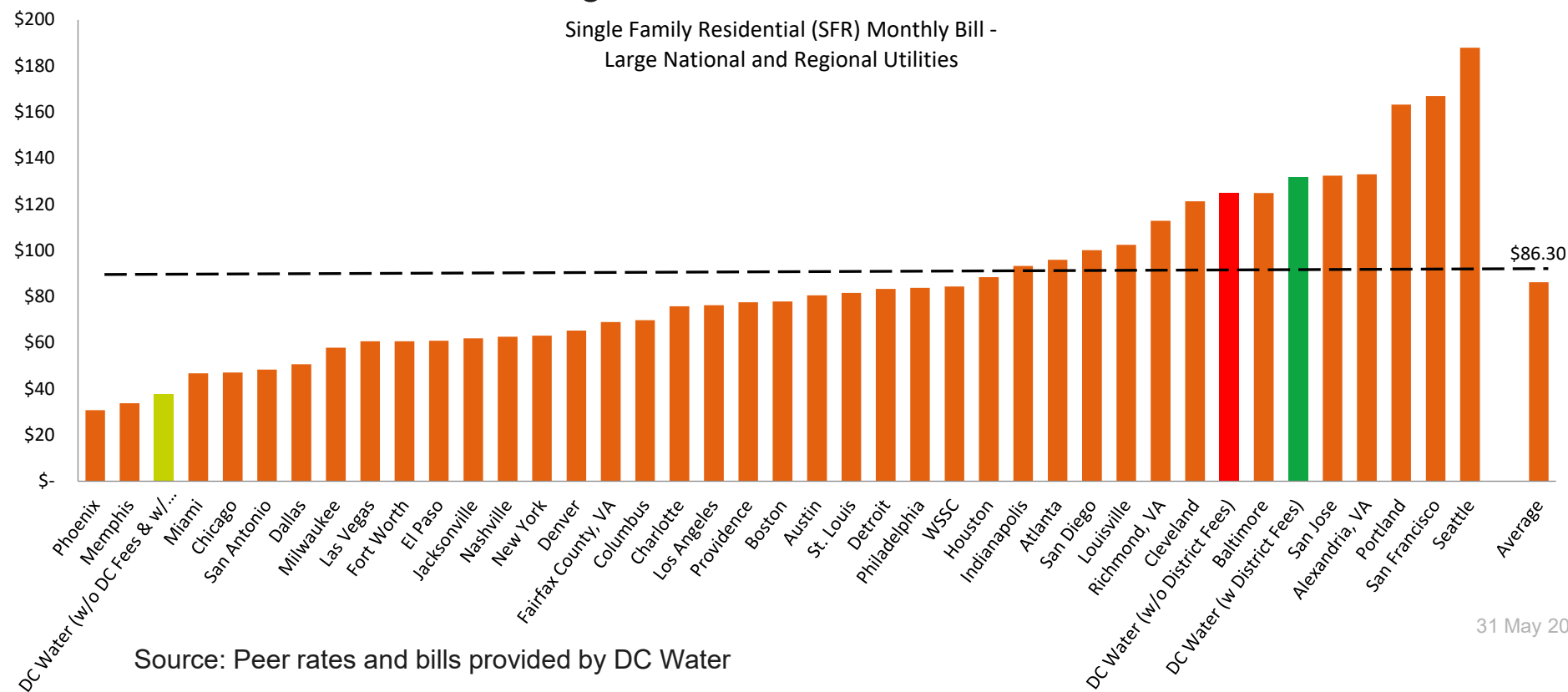


Appendix- National Comparisons

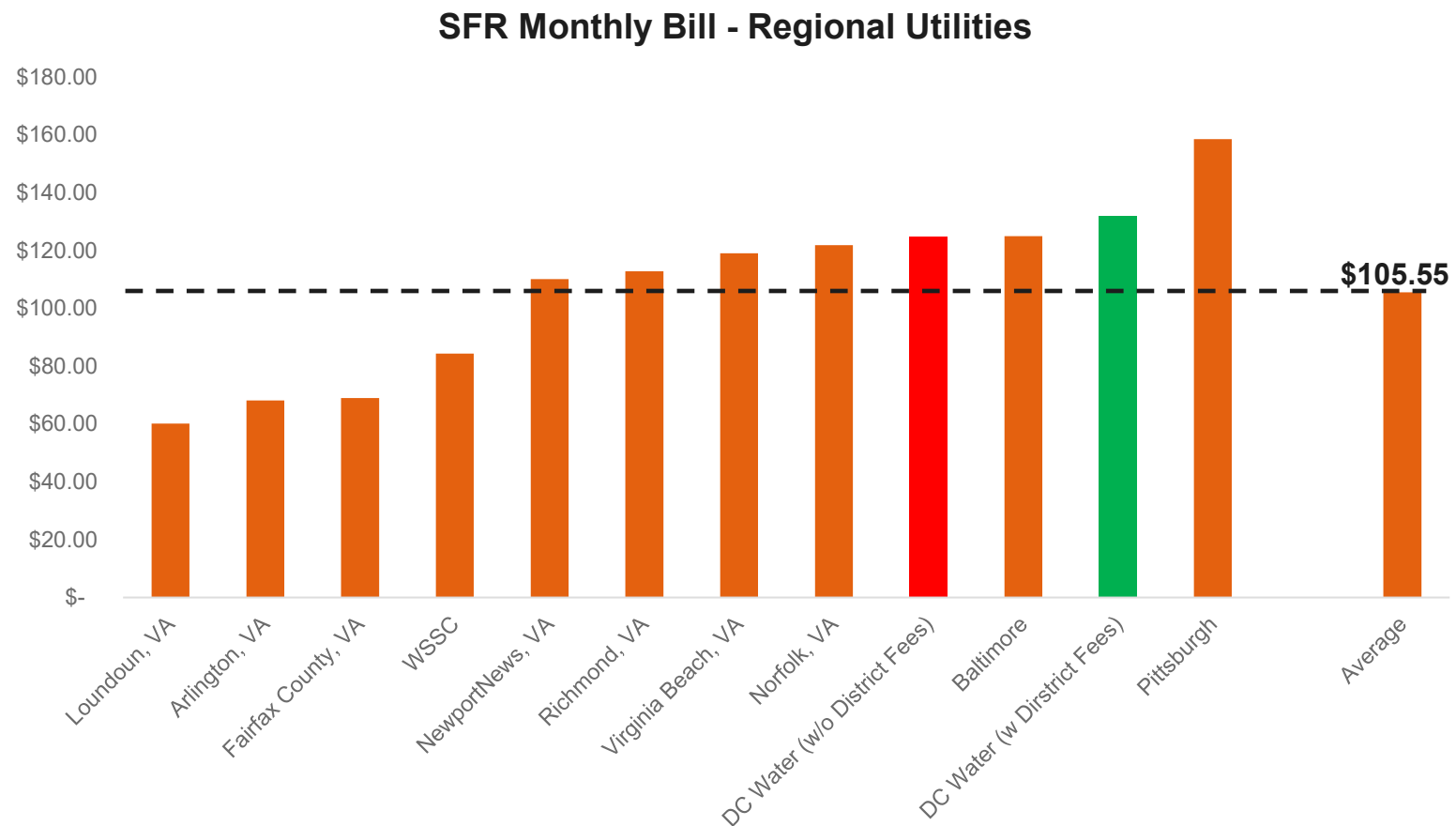


Charts reflect rates and fees in place as of November 1, 2023. User charges are based upon information provided by the identified cities and assumptions regarding water consumption, wastewater discharge, stormwater drainage area and other factors. Actual charges in each city will vary in accordance with local usage patterns.

- DC Water typical monthly bills (in red and green), without incorporating CAP benefits, are higher than the average of national and regional utilities included in the survey. However, it is important to note, DC Water receives no property tax revenue or other subsidies to reduce its user charges. Typical bills for participating CAP customers are lower than the average bill amounts.



Regional Utilities: DC Water charges are somewhat higher than the average of the regional utilities included in the survey; however, unlike some utilities, DC Water receives no property tax revenue or other subsidies to reduce its user charges.



Source: Peer rates and bills provided by DC Water

Appendix- Affordability Comparisons

DC Water offers affordability programs that are more robust compared to programs of other utilities in the region.

Utility Assistance Program	Level of Assistance	Eligibility
DC Water: Customer Assistance Program (CAP+, CAP1, CAP2, and CAP3)	CAP1: discount on the first 4Ccf of water and sewer use each month, a 75% reduction in CRIAC fee, and a Water Service Replacement Fee waiver. CAP2: discount on the first 3Ccf of water and sewer use each month (exclude PILOT/ROW) and 50% reduction in CRIAC fee. CAP3: 75% off the monthly CRIAC fee. CAP+: All CAP benefits plus two (2) CCF of water and sewer credit. This is an additional credit of approximately \$39.00 per eligible customer.	Income eligible customers verified by DOEE. During FY2025, for a family of 4, \$91,250 for CAP1 (60% of AMI) , \$121,700 for CAP2 (80% of AMI), and \$152,100 for CAP3 (100% of AMI.) For CAP+ (starting in FY2025,) it will be 20% of AMI.
PEPCO: Residential Aid Discount Program (RAD)	About 25% discount on electric bills, excluding generation and transmission service.	Income eligible customers verified by DOEE.
PEPCO: Arrearage Management Program	A monthly credit or matching payment that goes toward unpaid account balances for a year.	Current RAD customer with balance of \$300 or more that is at least 60 days past due.
PEPCO: Low-Income Home Energy Assistance Program (LIHEAP)	Customers can receive up to \$1,800 as a one-time Regular Energy Assistance benefit once a year from Oct.1 through Sept. 30.	Maximum annual income (October 1, 2022 - September 30, 2023) can't be more than \$91,225.
PEPCO: Senior Citizens and Disabled Resident Credit*	Seniors and individuals with disabilities may be eligible to receive a monthly \$7.50 credit on their Pepco bill.	Seniors and individuals with disabilities who are receiving either the D.C. Homestead Deduction or the Senior Citizen/Disabled Property Tax Reduction, and do not receive the Pepco Residential Aid Discount (RAD).
Washington Gas: Low-Income Home Energy Assistance Program (LIHEAP)	Through this program, the federal government distributes funds to the District of Columbia which, in turn, provides grants to qualified applicants to help them pay their energy bills.	Income eligible customers verified by DOEE.
Washington Gas: Residential Essential Service (RES) or Utility Discount Program(UDP)	Discount on a portion of the natural gas they use each month during the heating season from Nov. 1 to April 30.	Use natural gas as the principal source for home heating and eligible for the LIHEAP.

Appendix- Affordability Comparisons (Continued)

Utility Assistance Program	Level of Assistance	Eligibility
Comcast/ Xfinity: Internet Essentials	Provides 50/5 Mbps internet service for \$9.95 a month plus tax. No activation fees and no equipment rental fees.	Eligible for public assistance programs and is not an existing customer. Should not have outstanding debt to Comcast that is less than one year old.
Verizon Fios: Lifeline Service Program	1. Voice Dial Tone Line and Unlimited Local Usage - \$1 - \$3 per month (after Federal & State discounts) 2. Broadband (internet) - \$9.25 monthly discount off any Fios plan	Participate in certain government assistance programs or your annual income is 135% or below the Federal Poverty Guideline.
RCN: Internet First	50 Mbps Internet service for \$9.95 a month plus tax	Participate in public assistance programs and have not subscribed to RCN services within the sixty (60) day period immediately prior to applying for the program.
Amazon	50% Discount on Prime Membership	Eligible for government assistance programs

Why are rate increases needed: O&M expenses and disbursements are increasing, and consumption is decreasing.

- Long-term water demand is decreasing; total water sold has declined by 3.6% from 2017 through 2023

Water Sold (Millions of Gallons)

FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
25,845	25,526	25,067	24,370	24,017	24,282	24,598

- Historical financial performance supporting numbers:

Actual versus Revised Budget (\$ Million)

Actual vs. Revised Budget	Y2021	FY2022	FY2023
Budgeted Revenue	\$733.70	\$800.10	\$842.40
Actual Revenue	\$709.60	\$833.60	\$853.30
Budgeted Expenditures	\$642.66	\$658.42	\$686.40
Actual Expenditures	\$591.54	\$630.64	\$681.57

Appendix- Supporting Tables

Total O&M expenses are expected to increase by \$20.6 million in FY2025 and \$21.7 million in FY2026, or 4.7% and 4.8%. Cash Financed CIP is projected to increase by \$1.9 million in FY2025 and \$11.5 million in FY2026 to fund portions of the capital plan balance the use of additional debt to manage debt service coverage and support the credit rating.

Line No:	Operating Expenditures (\$ Millions)	Amended Budget FY2024	Proposed Budget FY2025	Preliminary Budget FY2026	FY2025 YoY Change	FY2026 YoY Change
1	Regular Pay	\$147.2	\$154.1	\$160.3	4.7%	4.0%
2	Benefits	\$45.9	\$46.4	\$48.3	1.2%	4.0%
3	Overtime	\$8.5	\$9.1	\$9.5	7.0%	4.0%
4	Total Personnel Services	\$201.6	\$209.6	\$218.0	4.0%	4.0%
5	Chemicals and Supplies	\$54.6	\$55.6	\$60.7	1.9%	9.2%
6	Utilities	\$39.2	\$40.3	\$41.8	2.8%	3.6%
7	Contractual Services	\$93.1	\$102.3	\$106.0	9.9%	3.6%
8	Water Purchases	\$44.0	\$45.3	\$48.6	2.9%	7.1%
9	Small Equipment	\$1.4	\$1.4	\$1.3	-5.1%	-6.6%
10	Total Non-Personnel Services	\$232.3	\$244.9	\$258.2	5.4%	5.5%
11	Total O&M	\$433.9	\$454.5	\$476.2	4.7%	4.8%
12	Debt Service	\$221.6	\$249.5	\$277.0	12.6%	11.0%
13	PILOT & ROW	\$23.4	\$23.8	\$24.2	1.6%	1.6%
14	Cash Financed CIP	\$58.6	\$60.4	\$71.9	3.2%	19.0%
15	Total Non-O&M	\$303.6	\$333.7	\$373.1	9.9%	11.8%
16	Total Operating Expenditures	\$737.6	\$788.2	\$849.4	6.9%	7.8%
17	Capital Labor Charges	(\$32.0)	(\$34.1)	(\$35.5)	6.6%	4.1%
18	Net Operating Expenditures	\$705.6	\$754.2	\$813.9	6.9%	7.9%